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States Settle With Household Finance

SEATTLE –Thousands of Washington homeowners who were overcharged for home loans issued by Household International will share millions of dollars in one of the largest direct consumer restitution cases in U.S. history, Attorney General Christine Gregoire announced today.

In addition to restitution, the settlement requires the Illinois-based company, whose subsidiaries include Household Finance Corp. (HFC), to change lending practices in what Gregoire said she hopes will set a new standard of conduct for the so-called sub prime home lending industry.

Among the most significant requirements of the settlement, Gregoire said, is a requirement that Household and its subsidiaries ensure that consumers actually benefit – usually in lower payments or lower overall interest rates – from new loans.

Nationwide, Household will pay up to \$484 million in consumer restitution – including up to approximately \$20.6 million to Washington consumers – to settle a multi-state investigation into alleged predatory lending practices by the company.

In announcing the settlement today in Seattle and Bellingham, Gregoire was joined by state Insurance Commissioner Mike Kreidler and by Helen Howell, director of the state Department of Financial Institutions (DFI).

In addition to restitution for consumers, Gregoire said she hopes the settlement “will begin to clean up the unlawful, unethical and unconscionable lending practices that occur all too often in the sub prime lending market today.”

“Home ownership is one of America’s most treasured dreams, but Household’s lending practices turned that dream into a nightmare for many here in Washington and across the country,” Gregoire said. “We trust that this settlement will transform Household into a model for other lenders to follow.”

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Gregoire joined officials from Arizona, Iowa, Illinois, New York and Minnesota in seeking today's landmark settlement with Household. Final negotiations were led by Gregoire, North Carolina Attorney General Roy Cooper, Iowa Attorney General Tom Miller and New York Banking Regulator Elizabeth McCaul.

Kreidler is seeking a state rule that would strongly restrict the sale of credit insurance in conjunction with a mortgage loan. Under the settlement, Household is now prohibited from requiring such insurance.

"The Household settlement should send the message loud and clear to other lenders that these predatory practices won't be tolerated. To ensure this outrageous behavior won't be repeated, the state rule we are proposing will erase the inherent unfairness of this unsavory product once and for all," Kreidler said.

DFI investigated HFC after receiving about 180 complaints against the company since January 1999. Since January 2000, the Attorney General's Office received 167 complaints.

Both HFC and Beneficial are licensed under Washington's Consumer Loan Act and are subject to the regulatory authority of DFI.

Earlier this year, the companies refunded nearly \$1 million to Washington borrowers after DFI uncovered overcharges under the Act. The current settlement is the result of two years of investigative work by the agency's Consumer Services Division that included a systematic inquiry of consumer complaints against HFC and Beneficial since January 1999.

The investigation also included DFI staff members secretly shopping several of the companies' branch offices, documenting firsthand the predatory practices noted by Attorney General Gregoire.

"This agency is a national leader in fighting predatory lending," said Howell, "and we intend to keep the pressure on companies and individuals who victimize consumers and violate their rights."

"This joint effort by our Attorney General, Insurance Commissioner, and Department of Financial Institutions is a great example of how state agencies are working together to protect the people of Washington," she added.

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Gregoire said state investigations showed that Household and its subsidiaries violated numerous provisions of the state's Consumer Protection Act by misrepresenting loan terms and failing to disclose important information to borrowers.

Many consumers faced monthly loan payments that were far higher than expected, and some were put at risk of losing their homes.

In addition to "packing" loan insurance into the payments, Household imposed costly prepayment penalties, failed to inform consumers about finance charges, and in some cases charged 12 to 14 percent interest when a 7 percent rate had been promised.

Under the settlement, Household agreed to:

- Pay up to \$484 million in restitution to consumers nationwide.
- Limit prepayment penalties on current and future loans to only the first two years of a loan.
- Ensure that new loans actually provide a benefit to consumers prior to making the loans.
- Limit up-front points and origination fees to 5 percent.
- Reform and improve disclosures to consumers.
- Reimburse states to cover the costs of the investigations into Household's practices.
- Eliminate "piggyback" second mortgages.

Gregoire emphasized that the vast majority of lenders continue to offer fair rates and sound business practices to consumers and that today's action is aimed at a few businesses that offer loans to sub prime borrowers.

Consumers in all 50 states and the District of Columbia will share the money if they join in the settlement. Washington State's share is dependent on the number of states joining in the settlement. Eighty percent of the states have until Oct. 31 to join the settlement and the remainder have until Dec. 15 to decide whether to join.

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The process for seeking restitution and distributing the money to consumers is still being determined and will be announced later. Restitution will be targeted to those consumers who were harmed the most.

Additional information can be obtained by calling 1-800-450-1003 or visiting www.dfi.wa.gov.

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An audio recording of the Attorney General's comments is available for use by broadcast media at www.wa.gov/ago.